

This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 03 KINSHASA 000292

SIPDIS

TREASURY FOR LKOHLE

E.O. 12958: DECL: 02/16/2016

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [CG](#) [CIAT](#) [EAC](#) [ELECTIONS](#) [IMF](#)

SUBJECT: IMF MISSION LOOKS AT DRC 2005 PERFORMANCE

REF: 2005 KINSHASA 1774

Classified By: Greg Groth, Econcouns, for reasons 1.4 (b) and (d)

1. (SBU) Summary. An IMF team was in Kinshasa January 24 to February 3 to review the DRC's performance in the third and fourth quarters of 2005. The IMF was generally satisfied with macroeconomic stability during the last half of 2005. Their principal concern was GDRC overspending in some budget categories, as well as underspending in the pro-poor sectors. They indicated that the GDRC had not met all of its structural reform targets, and that the Congolese Central Bank ended 2005 with dangerously low levels of foreign exchange reserves. The IMF team expressed concern that the GDRC had operated all of January without a 2006 budget, which had yet to be passed by Parliament. The IMF did not set a firm date for the sixth and final review, but indicated that a decision would probably be made in March for a review in late May or early June. They expressed hope that the DRC would submit its Poverty Reduction Strategy Paper in March so that implementation might begin in July or August. End summary.

2. (SBU) An IMF team from Washington led by African Department Division Chief Cyril Briancon began a ten-day mission to the DRC on January 24. An IMF mission led by Briancon was last in Kinshasa in mid-October (reftel). The team met with GDRC ministers and officials, as well as with Congolese Central Bank (BCC), World Bank (WB), and donor country officials. Briancon and recently-arrived country representative Xavier Maret briefed the Ambassador, DCM, and Econcouns at a January 31 breakfast. Briancon and Maret gave a public one-hour outbrief on the IMF mission to an assembled group of donor country, WB, and UNDP representatives on February 2.

Macroeconomic Stability

3. (SBU) The IMF team made note of macroeconomic stability in the DRC during the last half of 2005. Inflation, which had risen to 27 percent by June, was almost zero for the second half of 2005 and 21 percent overall for the year. The exchange rate had also been stable, with the Congolese franc even appreciating slightly against the dollar at year's end. On another positive note, the IMF said that 2005 GDP growth of 6.6 percent had been close to expectations and Briancon opined that it was possible that GDP growth had been even higher, based on anecdotal information from provinces where reliable data is not available.

GDRC Overspending

4. (SBU) Briancon said that the IMF's main concern was GDRC overspending in some 2005 budget categories -- salaries, official travel, and "institutions," which means expenses of the offices of the President, the four Vice Presidents, and the Presidents of the Senate and the National Assembly. He said that this was accompanied by underspending in the pro-poor sectors such as health and education. He noted that GDRC expenditures against the donor-supplied budgetary support portion of the 2005 budget were below projected levels, since some of the foreign-supplied funding had come in very late in 2005. This underspending of foreign budgetary support had been covered by overspending on the domestically-financed side of the budget, for example on wages for teachers, civil servants, and the military. Briancon noted that completion of the ongoing civil servant and military censuses is urgently required in order for the government to pay higher agreed-upon salaries without exceeding the budget. Elimination of "ghost workers" and duplications can only occur once the census work has been completed.

Structural Reforms

5. (SBU) In addition to incomplete censuses, the IMF mission found that the GDRC had not accomplished other structural reforms expected of it in 2005. These included the one-stop

("guichet unique") customs service, a financial accountability system available for public scrutiny, and the restructuring of the Congolese Central Bank (BCC) network. Briancon said that despite IMF technical assistance and its attempts to help reorganize the central bank, the BCC is losing money and that its net value is negative due to its inability to generate revenue.

The 2006 Budget

16. (SBU) The IMF mission indicated that it had no problems with the draft 2006 budget and noted that it even contained elements of the long-awaited Poverty Reduction Strategy Paper (see para. 9). Briancon, however, expressed "serious concern" that there was still no 2006 budget in place at the beginning of February, and that there has been little control over GDRC spending since January 1. He said that the GDRC was apparently operating at 2005 budget levels, but that these expenditures would be booked retroactively for the beginning of 2006, once the new budget was promulgated. He noted that even in the regular GDRC "chaîne des dépenses" (chain of expenditures,) up to half of all spending was approved retroactively, but that at least it was done in a more timely and transparent fashion. (Note: The 2006 budget was approved by the Parliament on February 9 and sent to the President for signature the week of February 12, but as of February 16 was still not promulgated. End note.)

Central Bank Issues

17. (SBU) The IMF's other principal concern was the low level of foreign exchange reserves in the BCC. Briancon said that the BCC's foreign exchange reserves at the end of 2005 had dropped to the equivalent of less than one month of imports. He acknowledged that this was partly because foreign assistance funds for 2005 had been lower than expected and had not all arrived before year's end. The bank had been forced to draw down its foreign exchange holdings in order to make some year-end purchases and payments. Briancon said that this low level of reserves could make it difficult for the BCC to intervene if the Congolese franc began to depreciate and would be a "major problem" if inflation in the DRC began to rise again. Briancon said that this was also problematic because the DRC will not receive the bulk of 2006 foreign budgetary support funding until after the first half of the year.

Sixth Review

18. (C) Briancon said that the prospects for a sixth review of the DRC program are "difficult" right now, but that the current arrangement could in principle be extended through June 11, if necessary. He said that he hoped to see more progress, and that the fund would make a decision in late February or early March on whether or not to schedule the sixth review for late May or early June. Briancon characterized the current economic program as an informal "staff-monitored" approach and said that it was possible the IMF might need to initiate a formal six-month "staff-monitored program" (SMP) in March if they found little or no progress. He said that this might be the best way to assure the start of a new economic program with the new government, since it would give the IMF a higher level of control over the current economic reform program.

PRSP Delays

19. (SBU) Briancon and Maret said that it is essential for the DRC to complete its Poverty Reduction Strategy Paper (PRSP), have it approved by the IMF, and begin its implementation with the new government. The Ministry of Plan is the lead GDRC ministry for this document, but it also needs input and acceptance by half a dozen other ministries, many of whom are not in cooperation mode. Briancon predicted that the PRSP would be available in draft form by March and that implementation would need to begin in the third quarter of 2006, so that the DRC could then reach completion point during the third quarter of 2007, before heavier IMF payments would come due. He noted that there were some elements of the anticipated PRSP already included in the 2006 draft budget. (Note: Ambassador spoke recently to Minister of Plan Thambwe, who told him that he was making it a priority to have the PRSP ready by March. End note.)

Suggestions for Improvement

10. (SBU) Briancon said he had suggested the following

actions to the GDRC to improve their adherence to the IMF program in 2006:

-- The GDRC should create a "commitment plan" for each 2006 budget line by end February and post it on a GDRC public internet site. This month-to-month plan would provide ministry-by-ministry details of salaries, goods and services, mission travel costs, capital spending, and other expenditures.

-- The GDRC should adhere to the proposed ten percent increase in the 2006 budget on expenditures in the socioeconomic sectors specified in the HIPC program, especially in the health sector. These pro-poor sector expenditures should then be confirmed by audits, first of the financial outlays and then of the actual presence and effect of the items purchased.

-- The BCC should increase its foreign exchange reserves.

-- Each quarter the Minister of Budget should send a simplified copy of the current budget status to the National Assembly, including the plan for out-months.

-- The GDRC must get the "one-stop" customs service up and running, now that the Congolese Customs Office (OFIDA) has been confirmed as the sole receiver of customs duties.

-- The GDRC should make sure that the military receive their salaries, including higher benefits for families, as provided for in the recent EUSEC (EU mission to provide advice and assistance for security reform) report. Briancon noted that the BCC has been issuing the full amounts but salaries are not being disbursed to soldiers in the field.

11. (SBU) Comment. Although not the sixth review mission that many, including the GDRC, had expected by now, the IMF did send a very clear message about the GDRC program. The GDRC has been put on notice that, despite a return to some semblance of macroeconomic stability, there is still a lot that must be done, especially on the structural reform side. The fund is rightly concerned that with continued overspending and the low level of foreign reserves in the bank there could be a return to macroeconomic instability in the first half of 2006. Sticking to a budget is difficult when there is no budget, as was the case for the entire month of January. Hopefully there will be a budget in place by the week of February 20. Meanwhile, the GDRC can start putting into place some of the measures suggested by the IMF during this mission, and after a successful sixth review the IMF could then initiate a new economic program. This may require an SMP to get them through the current program. The GDRC's next major hurdle, though, is to get the PRSP drafted and approved so that the new government can begin implementation immediately upon taking office and reach the HIPC completion point during the third quarter of 2007. End comment.
MEECE